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Christopher Kopper

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# Banking in National Socialist Germany, 1933–39

CHRISTOPHER KOPPER
*University of Göttingen*

Within the wide-ranging and voluminous published historical research concerned with National Socialist Germany, banking is practically the only topic that has not aroused scholars' interest.[1] There are a considerable number of reasons explaining this particular lack of attention, of which two may be overriding. First, few historians are equipped with the necessary analytical methods for testing Leninist allegations that fascism (or National Socialism) was 'the rule of the most reactionary and aggressive groupings of the financial capital'.[2] Second, most of the files of the Reichswirtschaftsministerium [Ministry for Economic Affairs], of the Reichsbank and of the major joint stock banks were captured by Soviet forces. They were subsequently transferred to the authorities of the former Deutsche Demokratische Republik [GDR] yet remained closed to historians until the downfall of the communist dictatorship in 1989.

Nonetheless, sufficient evidence was available to historians that would allow an empirical analysis of banking in National Socialist Germany. All the balance sheets of the joint stock banks were accessible and, with certain reservations, comparable and reliable.[3] However, despite the publication of aggregate data concerned with the supply of credit,[4] no major attempt at an empirical analysis of the credit sector in Germany was undertaken by either economists or banking historians. Although some valid assumptions about a decline of the power of the banking sector were made,[5] the necessary empirical underpinning lacked precision and analytical stringency. It remained necessary to reconstruct the most important decision processes

[1] This essay presents some of the important conclusions reached in the research for my doctoral dissertation (Bochum University, 1992), subsequently published as *Zwischen Marktwirtschaft und Dirigismus. Bankenpolitik im 'Dritten Reich' 1933–1939* (Bonn, 1995).

[2] This was the kernel of the 'Dimitrov doctrine', formulated in 1934 by Georgij Dimitrov, General Secretary of the Communist International, and canonised by communist historiography up to 1989.

[3] From 1935, the balance sheets of all banks in Germany had to comply with the provisions of the Kreditwesengesetz [Banking Law] and were, therefore, comparable without reservation.

[4] See, e.g., Deutsche Bundesbank, *Deutsches Geld- und Bankenwesen in Zahlen* (Frankfurt-a-Main, 1976).

[5] See, e.g., Institut für bankhistorische Forschung, *Deutsche Bankengeschichte*, vol. III (Frankfurt-a-Main, 1983).

in order to understand the banking policy of the central Reich authorities and the business policies followed by the principal joint stock banks.

## I

Economists and historians have not constructed a theoretical model explaining the position of banking from 1931 to 1945. Some recent empirical research concerned with developments during Kaiserreich and the Weimar Republic have shown that the power of the banks was waning over these periods. This challenges the view that it was waxing, put forward in 1910 by the socialist economist, Rudolf Hilferding.[6] Scholars now stress that the major manufacturing companies were beneficiaries of growing inter-bank competition since this enabled senior industrial executives to prevent bankers from making serious inroads into their spheres of decision-making.

The bargaining power that was exerted by the major joint stock banks continued to remain restricted. Ultimately, it was severely damaged by the banking crisis of July 1931, during which the Danat-Bank, the Dresdner Bank and the Commerzbank all lost their liquid reserves. Consequently, board members of the major banks faced the rise of the National Socialist Party in a fragile business position. They were vitally dependent upon Reich funds to prevent their institutions' bankruptcies. In this situation, any political approach before 1933 to the NSDAP (National Socialist Workers' Party) would have damaged their political relations with the current government.

In addition to their dependence upon Reich assistance, directors of the major banks had few other reasons to welcome a National Socialist government. Indeed, in May 1932, the NSDAP group in the Reichstag [parliament] published an Economic Urgent Action Programme [Wirtschaftliches Sofortprogramm] that urged the socialisation of the whole of banking and the supply of credit.[7] This pseudo-socialist proposal was not the only political or economic factor explaining why most German bankers refrained from giving any open, or even secret, support to the Nazis before Hitler was appointed Chancellor on 30 January 1933. Despite some previous efforts by pro-capitalist Nazi politicians, such as Hermann Göring, Walther Funk and Wilhelm Keppler (Hitler's personal deputy for economic questions), to gain the support of industrialists and bankers, the erratic and contradicting positions of divergent interest groups within the Nazi Party made it impossible for bankers to take them seriously.

In order to prevent any further contradiction between divergent economic interests, Hjalmar Schacht had advised Hitler to renounce a National Socialist economic

[6] See V. Wellhöner, *Großbanken und Industrie im Kaiserreich* (Göttingen, 1989); and H. Wixforth, *Banken und Schwerindustrie in der Weimarer Republik* (Cologne, 1995).

[7] Wirtschaftliches Sofortprogramm der NSDAP, reprinted in H.-A. Jacobsen and W. Jochmann (eds), *Ausgewählte Dokumente zur Geschichte des Nationalsozialismus 1933–1945* (Bielefeld, 1966).

programme.[8] Schacht believed that, for a catch-all political party, it constituted a significant obstacle in the way of gaining power. Furthermore, the programme could not constitute the grounds for forming a consensus due to the irreconcilable divergence between the traditional middle classes and big business. As a result, the NSDAP never developed any clear-cut economic programme but, instead, with its hostile platitudes against joint stock banks, scared the bankers away. Even the former Reichsbank President, Schacht, who had established himself as the leading financial expert of the anti-republican rightist movement, remained sceptical, although being ready to cooperate with Hitler without any reservation.

It caused no great surprise amongst German bankers when, in March 1933, Hitler designated Schacht to be the Reichsbank President.[9] Simultaneously, Schacht also became an informal plenipotentiary for credit and banking policy, which insured the banking system against a loss in foreign and domestic confidence. In Hitler's calculation, Schacht was supposed to finance German rearmament without disturbing the weak and sensitive German capital market. Thanks to his high reputation within banking circles, both German and international, and with Hitler's personal protection, Schacht succeeded in stabilising the banking sector. Furthermore, he protected the banks against violent and arbitrary assaults from storm troopers and middle-class ideologists.[10]

## II

At the end of the Weimar Republic, the major joint stock banks were in a dire position. From the end of 1930 until 1933, the Deutsche Bank, Dresdner Bank and the Commerzbank collectively lost RM 1,170 m. (or ten per cent of their aggregate balance sheet totals), which was about 50 per cent more than the total of their capitals plus reserves.[11] In 1930, the 'big four' banks (including the Danat) had had capitals and reserves amounting in all to about RM 780 m., giving rise to a capital ratio of 6.6 per cent. Yet this was lower than the ten per cent ratio that had usually prevailed before 1914. Two years later, in 1933, the sum of the surviving major banks 'own capitals' and reserves amounted to RM 444 m., producing a capital ratio of 5.6 per cent. In these circumstances, the necessary substantial writing down of

[8] Schacht to Hitler, 29 Aug. 1932, in H. Michaelis and E. Schraepler (eds), *Ursachen und Folgen*, vol. VIII (Berlin, 1963), p. 620f.

[9] According to the Reichsbankgesetz [Reichsbank Law], 1930, the Generalrat [General Council] of the Reichsbank appointed the Reichsbank President. After the Nazi seizure of power, this was only a formality involving the compliance of the Generalrat. Regarding the circumstances of Schacht's election, see the notice of Max Warburg about the meeting of the Generalrat, 16 Mar. 1933, in Archives of M. M. Warburg-Brinckmann & Co., Hamburg.

[10] Bundesarchiv, Potsdam [henceforth BA P]: R 43II, nos. 229, 233, 244, 397, Schacht's correspondence with Reich Chancellery, Mar.-Apr. 1933.

[11] BA P: Reichsbank, no. 6918, Report from the Economics and Statistics Dept., Reichsbank, about losses of German banks during the banking crisis, Nov. 1933.

assets could only be undertaken with the assistance of funds, totalling RM 678 m., supplied by the Reich and Reichsbank.[12]

At the end of the reconstruction process, the Reich and the Deutsche Golddiskontbank (a wholly-owned subsidiary of the Reichsbank) owned 91 per cent of the Dresdner Bank, 70 per cent of the Commerzbank and had a minority interest in the Deutsche Bank.[13] From 1932, the Reich exerted its control over the Dresdner Bank and the Commerzbank through deputies sitting on the working committees [Arbeitsausschuß] of these banks' board of directors. The Reich deputies, mainly higher civil servants of the Reichswirtschaftsministerium, of the Reichsfinanzministerium [Ministry of Finance] and from the Reichsbank, did not intervene in the taking of normal, day-to-day business decisions. Rather, their presence on the banks' management committees ensured that there were not to be further costly failures arising from the provision of credit.[14] Such a role for the deputies was in accordance with the economic principles of both the Reichsbank and the Ministry for Economic Affairs, which opposed direct interventions and directives.

Hjalmar Schacht and members of the major banks' executive boards mutually agreed that Reich officials should play no part in the conduct of regular banking business. Nevertheless, the Reichsbank President and the Minister for Economic Affairs took important decisions regarding banking personnel, especially concerning those individuals regarded as having been responsible for the failures during the banking crisis. However, after the Nazi seizure of power, the Dresdner Bank and the Commerzbank, like all public enterprises, were subject to the Gesetz zur Wiederherstellung des Berufsbeamtentums [Law for the reconstruction of administration]. The executives of these particular banks reacted to this racist policy in a utilitarian but opportunistic manner in reducing their staffs by dismissing sizeable numbers of Jewish employees. Even directors of the Deutsche Bank, in which state institutions only had a minority interest, displayed obedience to Schacht, using the opportunity to sack redundant and exposed Jewish colleagues.[15] Nonetheless, the major banks tried to retain some of their most valuable Jewish staff members, namely those who would be very difficult to replace by 'Aryans'.[16]

These mixed motives explain why directors of the Dresdner Bank kept faith with their Jewish colleague, Samuel Ritscher, to the extent of even obtaining an exemp-

[12] ibid., Report from the Economics and Statistics Dept., Reichsbank, about the losses of private and public banks, 20 Jan. 1934.

[13] See the concise description in M. Pohl, *Konzentration im deutschen Bankwesen (1848–1980)* (Frankfurt-a-Main, 1982), p. 386f.

[14] BA P: Reichsbank, no. 6918, Guidelines for Reichsbank members on board of directors, 10 Nov. 1933.

[15] BA P: Deutsche Bank, no. 21082, Report from Franz Urbig, chairman of the board of directors, Jul. 1933.

[16] Bundesarchiv, Koblenz [henceforth BA K]: FINAD, 2/50/1, files of the Financial Intelligence Division of the American Military Government in Germany [henceforth OMGUS]; and BA P: Reichswirtschaftsministerium, files no. 18547, 18567.

tion from the law, an exemption that continued until March 1936.[17] Nevertheless, in the case of the Dresdner Bank, a group of National Socialist managers successfully collaborated with the Führer's deputy against the Reichsbank to pave the way for Nazis joining its executive board. As salaries, and the scope of business, at the Dresdner Bank were rather limited by financial restrictions, many qualified non-Nazi bankers withdrew their applications, allowing Nazi bankers to penetrate its board.

## III

Through the application of a rigid capital market policy, the Reichsbank and the Reichswirtschaftsministerium fostered self-financing on the part of industrial undertakings. The Reichbank's capital market board strictly controlled the capital market in order to bring about a consolidation of the Reich debt, a policy which crowded out private companies and local authorities. Nevertheless, the operations of the credit sector continued to follow the patterns of a market economy. In contrast to Soviet-style, planned economies, there was no central credit direction for the allocation of loans and credits to industrial and public debtors. While there was a strict supervision of interest rates and the provision of loans, the two-stage banking system of market economies remained intact.

However, from 1936, Hitler and Göring agreed that Schacht was an obstacle in the way of unrestricted German rearmament and, therefore, should be replaced. Yet, as Schacht had kept intact his very high domestic and international reputation, his removal from power was a last resort, to be undertaken only if he stubbornly stuck to his policy of monetary stability.[18] Ultimately, Göring, as the General Plenipotentiary for the Four Year Plan, seriously challenged Schacht's responsibilities as Minister for Economic Affairs to force him to resign in October 1937. By opposing, albeit in vain, the steady rise of the short-term Reich indebtedness incurred for rearmament, Schacht's power as Reichsbank President came to be seriously affected and eroded. Nonetheless, the Reichsbank retained its autonomy until Schacht was dismissed as Reichsbank President in January 1939. Even so, the Reichsbank's fulfilment of its legal responsibilities to maintain monetary stability without any government interference continued. The Reichbank's freedom of action had been curtailed from 1937 due to Göring's policy, but its capacity to

[17] BA K: OMGUS-FINAD, 2/184/5–6, interrogation of executive member, Carl Goetz, 21 Jan. 1946.

[18] Regarding Schacht's resignation as Minister for Economic Affairs, Goebbels, Minister for Propaganda and head of party propaganda, wrote in his diary, 12 Aug. 1937: 'Trouble about Schacht, who probably will go or must go. He doesn't want to defray the German credit policy. In reality, he is a professional gripe'; and, on 6 Nov. 1937: 'In the case of Schacht the Führer wants to wait until 9 November 1937 [the date of great party celebrations] is over. But Schacht must get away. We all agree in this case': J. Goebbels, *Die Tagebücher*, 4 vols (Munich, 1987).

formulate and execute policy was only totally overthrown in June 1939 when a new central bank law was enacted.

Despite the strict and effective control of the capital market, the dirigiste features of capital market policy were mostly invisible, not affecting competition between banks. So much so, that commands were not needed to direct the flows and allocation of bank-supplied funds into armaments and the establishment of autarky, regarded as key sectors by the Nazis. For the Reichsbank, its rediscounting policy was sufficient to obtain the banks' compliance. Therefore, the 'golden bridle' of rediscounting generally proved to be sufficient to secure the priorities of financing the state and armaments production. There were only a few occasions when the Ministry of Economic Affairs was forced to apply moral suasion to bring about the banks' participation in the long-term financial support of armament projects.

Generally, capital market control worked effectively. Despite economic recovery, the issue of new shares and industrial debt fell to levels below those that had prevailed at the nadir of the economic crisis in 1932.[19] In order to attract investors to public loans, the Ministry for Economic Affairs placed a ceiling on share distributions at six per cent. Dividend payments above that level were required to be paid into accounts at the Golddiskontbank and were blocked for at least three years. Industrial companies acted in the manner that the Reichsbank expected of them, preferring to reinvest their surplus profits or build up open, or hidden, reserves.[20] According to Reichsbank data, aggregate pre-tax net incomes of German joint stock companies rose from RM 735 m. in 1933 to RM 1,716 m. in 1935, with only RM 554 m. and RM 736 m., respectively, being distributed to shareholders in each of those years.[21]

Such behaviour indicates that the Reichsbank's capital market policy successfully directed manufacturing profits to the finance of industrial investment. Indeed, between 1933 and 1937, long-term bank debts of industrial companies declined, pointing up the growing greater importance of the plough-back of profits.[22] Although industrial companies' short-term debts increased considerably, the banks were not the main beneficiaries of rising turnovers within the manufacturing sector. During the 1930s it was not short-term indebtedness to banks that rose but, rather, the debts of manufacturers to suppliers of raw materials and prefabricated materials.[23] Despite recovery from the great slump and the German rearmament boom, banks' debtors fell as opposed to rising. Between 1933 and 1937, debts to German banks

[19] W. Ehrlicher, *Geldkapitalbildung und Realkapitalbildung* (Tübingen, 1956), pp. 113–15, 288.

[20] Anleihestockgesetz [Law for blocked accounts for excess dividends], 4 Dec. 1934; and D. Swatek, *Unternehmenskonzentration als Ergebnis und Mittel nationalsozialistischer Wirtschaftspolitik* (Berlin, 1972), p. 60.

[21] See *Wirtschaft und Statistik*, 14 (1934)–16 (1936).

[22] ibid., 15 (1935), p. 886; 16 (1936), pp. 122, 374, 599, 964; and 17 (1937), pp. 194f., 485f., 604–6. Because of mergers, reconstitutions and liquidations, data for industrial joint stock companies with share capitals of at least RM 1 m. cannot be compared from year to year.

[23] See, e.g., the speech of Eduard Mosler (speaker of the executive board of the Deutsche Bank) at the annual shareholders' meeting on 7 Apr. 1937, published in the *Frankfurter Zeitung* (8 Apr. 1937).

(excluding savings banks) decreased from RM 4,536 m. to RM 3,800 m., indicating that industry was increasingly enjoying a higher liquidity than that which had prevailed during either the great slump or before 1928/29.[24] Debts to banks fell by 50 per cent between 1929 and the end of 1937, when German GNP reached a new apogee.[25]

There is more than ample empirical evidence showing that during the 1930s the provision of credit became overwhelmingly the supply of short-term loans, whereas long-term industrial investments were increasingly financed from open and hidden reserves and by a growing amount of liquid assets. This meant that banks had less and less power for either exerting influence over industrial investments or, through the execution of credit policy, influencing decisions taken by boards of industrial companies. With recovery from the great slump, directors of manufacturing undertakings increasingly no longer ran the risk of either being confronted by a credit refusal from a bank or being told that banking credits would not be rolled-over. These considerable threats increasingly lost all their past horror over the 1930s. Rather, the major banks became more and more willing to provide fresh short-term credits. Indeed, during the recovery after 1932, industry managed to mobilise its short- and long-term debts which over the depression and crisis had been frozen to a considerable degree. In 1933, the Deutsche Bank, Dresdner Bank and the Commerzbank provided in aggregate about RM 1,477 m. as new credits to debtors and such fresh provisions thereafter steadily rose to reach RM 3,008 m. during 1938.[26]

Unlike the rapid resurgence enjoyed by industrial debtors, the recovery of the major joint stock banks was delayed. It took the 'big three' banks, and some ailing regional banks (such as Allgemeine Deutsche Creditanstalt AG and Norddeutsche Kreditbank AG), three to four years to unlock their frozen assets and to improve their earnings through the supply of fresh credits. Although major debtors quite soon regained their solvency, the banks took considerably longer to liquidate their debts. Whereas manufacturing undertakings attained a satisfactory capital profit rate in 1934 (3.6 per cent), the 'big three' banks enjoyed only a rate of 0.4 per cent in that year.[27] These banks had to wait a further year to generate a profit rate of at least four per cent, which finally enabled the resumption of dividend payments after a four-year gap. Furthermore, in comparison with industry, the banks had markedly less ability to generate 'own capital'. Between 1933 and 1938, the capital bases of

[24] Deutsche Bundesbank, *Deutsches Geld- und Bankenwesen*, pp. 78–85, 102.

[25] According to T. Balderston, 'German banking between the wars: the crisis of the credit banks', *Business History Review*, 65 (1991), the volume of debt to the credit banks fell from RM 7,771 m. in 1929 to RM 4,227 m. in 1938. Balderston included Deutsches Geld- und Bankwesen in Zahlen, using a slightly different definition for credit banks. As the rise of private banks' debtors from 1937 to 1938 was about RM 317 m., a reduction of about 50% between 1929 and 1937 can be estimated.

[26] See the banks' *Annual Reports* for 1933 to 1938.

[27] See *Statistische Jahrbücher*, 1935–1939/40, and the *Annual Reports* of the Deutsche Bank, Dresdner Bank and Commerzbank.

the 'big three' banks increased at far slower pace (3.1 per cent) than those of industrial companies (18.5 per cent).[28]

In contrast to the 'big three' banks, regional and middle-sized joint stock banks were less affected by the 1931 banking crisis and, from 1933, earned profits on capital at a rate of at least four per cent. This faster recovery was a consequence of a healthier and more cautious spread of risks among their small and medium-sized clienteles for credit. The majority of credits provided by these particular banks were for sums less than RM 0.1 m. Such assets had not been required to be written off to the same extent over the early 1930s as the large credits supplied by the major banks. Furthermore, the sustained greater liquidity of their assets allowed these smaller banks to come out of the crisis without any need of reconstructions involving capital participations from the Reich.[29]

However, there are other reasons for the relatively weak earning power of especially the 'big three' banks during the 1930s besides a low demand for credits and a burdensome heritage from the banking crisis. It should be appreciated that the eventual rise of their profits was more the result of reduced risks and faster turnover than high interest margins. Schacht developed a policy of low interest rates in order to reduce the costs of both long-term Reich borrowing and long-term syndicated loans supplied to the armaments and autarky sectors. He took measures to convert interest rates on all public loans which cut rates from six per cent, or higher, to 4.5 per cent.[30] This proved to be only the prelude, cautiously prepared by Schacht, for the general reduction of interest rates on credits. In February 1935, the central organisations of the banking industry signed a new agreement on interest rates and fees, which brought the interest rate on savings accounts down from 3.5 per cent to three per cent.[31] Furthermore, at the same time, commissions for credits were reduced from two per cent to 1.5 per cent. Consequently, the average interest rate margin between debtors and creditors fell by about 0.2 per cent.

On the other hand, structural changes in National Socialist economic policy affected the earning powers of both the 'big three' banks and private merchant bankers. The application of the Reichbank's rigid capital market policy caused a steep decline in the volumes of new issues and industrial loans, which previously had constituted some of the most profitable areas of banking. At several annual meetings, executive boards of the big banks urged the Reichsbank in vain to loosen its strict control over the capital market.[32]

[28] *Statistisches Jahrbücher für das Deutsche Reich*, 1935 and 1939/40.

[29] See *Untersuchung des Bankwesens*, 2nd part (Berlin, 1934), pp. 212–49.

[30] Gesetz über die Zinsermäßigung bei öffentlichen Anleihen [Law for the reduction of interest for public loans], 27 Feb. 1935.

[31] See F. Ernst, 'Anlaß und Bedeutung der Geldzinssenkung', *Der deutsche Volkswirt*, 9 (1934/35), pp. 1029–31. Ernst was the Reichskommissar für das Kreditwesen [Reich Commissioner for the supervision of banking].

[32] See, e.g., the speeches of Dresdner Bank executive, Hans Schippel, at the annual meeting, 10 May 1935; and of Deutsche Bank executive, Eduard Mosler, at the annual meeting, 8 Apr. 1936, both published in *Frankfurter Zeitung* (11 May 1935 and 9 Apr. 1936).

The earnings of the 'big three' and private merchant bankers, such as M. M. Warburg & Co. and Simon Hirschland, also suffered from the sharp contraction in foreign trade. This led to a marked reduction in the lucrative business, comprising dealings in rembours bills and all other forms of short-term credits for the import and export trades. In 1932, the 'big three' banks had held about RM 963 m. in Warenvorschüsse [rembours credits], but, following the inauguration of Schacht's rigid Neuer Plan [New Plan] for an autarkic policy, these assets declined rapidly to RM 391 m. at the end of 1934.[33] This was a result of a greater share of German foreign trade being undertaken through bilateral clearing. Moreover, German banks came to complain over the mid-1930s of the high bureaucratic costs incurred in the trade-clearing system and foreign currency dealings, with, in 1936, Deutsche Bank executive, Gustaf Schlieper, commenting that these areas of banking have 'been a loss for years'.[34]

It has always been presumed that the banks were one of the most important sources for financing the Reich debt. Surprisingly, the sharply rising state demand for capital resources did not bring about an increase in interest rates. This was due to the combination of rigid capital market control and the effective supervision of interest rates. Although, in the execution of the cheap-money policy, the banks themselves signed an agreement on interest rates in February 1935, more important was the behind-the-scenes persuasion exerted by the Reichsbank.

In practice, savings banks and insurance companies were the most important sources of capital for the refinancing of Reich debt. At the end of March 1939, savings banks held Reich and provincial [Länder] loans totalling about RM 6b. – 43.5 per cent of all in circulation – whereas the 'big three' banks and private banks had no more than RM 1,200 m. amongst their collective assets.[35] This placed the credit banks in third place, behind savings banks and insurance companies, as institutional holders of public debt over the 1930s.

The ranking of Reich debt holdings amongst financial institutions in 1939 was not due to their various investment policies but the result of the growth and distribution of private savings. The ordinary, middle-class German held a savings account at his local savings bank, whose manager reinvested such deposits in public loans, issued variously by local, provincial and Reich authorities. From the end of 1933 to the end of 1938, savings banks' deposits increased from RM 11.1b. to RM 18b., the consequence of their clients' rising net earnings but coupled with a growing mismatch between the demand for, and supply of, consumer goods. In contrast to the experience of savings banks, aggregate savings deposits with other banks increased from only RM 228 m. to RM 300 m. over the same period.[36]

[33] Deutsche Bundesbank, *Deutsches Geld- und Bankenwesen*, pp. 76–9.

[34] Address of Schlieper to the Deutsches Institut für Bankwissenschaft und Bankwesen, 3 Mar. 1936, subsequently published (Berlin, 1936).

[35] W. A. Boelcke, *Die Kosten von Hitlers Krieg. Kriegsfinanzierung und finanzielles Kriegserbe in Deutschland 1933–1948* (Paderborn, 1985), p. 31.

[36] Deutsche Bundesbank, *Deutsches Geld- und Bankenwesen*, pp. 78–83, 118f.

The data reviewed in the previous paragraph also indicate that the savings banks held the biggest pool by far of German private savings. Most were used to refinance long-term Reich debt whereas these institutions' credits to local authorities declined from RM 1,889 m. in 1933 to RM 1,472 m. in 1936. Furthermore, in contrast to their growing holdings of Reich loans, credits supplied by savings banks to private debtors stagnated, being RM 1,756 m. in 1933 and RM 1,717 m. in 1938. Private debtors of savings banks, predominantly master craftsmen and shopkeepers, became more and more liquid but lost parts of their businesses to industrial enterprises and chain stores.[37] Despite the mild upswing in private construction over the 1930s, mortgage credits lagged behind, increasing only slightly from RM 5,639 m. in 1933 to RM 6,882 m. in 1936.[38]

Without any visible interference in the business undertaken by banks with private clients, the Reichsbank successfully crowded out all sorts of local and provincial loans in favour of Reich loans. This induced bias in the market was of some standing since, in October 1931, the German government had prohibited savings banks from granting new credits to local authorities.[39] Consequently, the inception of crowding out was not an achievement of National Socialist policy. Before October 1931, savings banks had been major creditors of local authorities and, as a result, were heavily affected by their clients' illiquidity during the early 1930s. Furthermore, these institutions suffered severely from their political dependence upon local authorities. The 1931 prohibition on the further supply of credits to local authorities was introduced both to aid the savings banks' post-crisis recovery and to assist their institutional independence. But, even when local authorities recovered from their heavy debt burden, savings banks continued to be barred from what previously had been a central field within their business.

There were three main reasons why the Reich reserved the refinancing power of savings banks for itself and why the savings banks could easily be moved by material incentives. First, their structure of long-term liabilities made such banks extraordinarily fit for taking on long-term loans in their portfolios. Although saving deposits were legally short-term liabilities, in aggregate they fluctuated only slightly so that they could be reinvested in long-term loans without risking illiquidity. Second, the Reichsbank recognised Reich loans as liquid assets which meant that savings banks could easily fulfil the liquidity standards of the Reichskommissar für das Kreditwesen [Reich Commissioner for credit business]. Third, the interest paid on Reich loans was significantly higher than that on private bills, which fell from 4.1 per cent to 3.3 per cent.[40]

[37] According to *Wirtschaft und Statistik*, 17 (1937), the average acceptance credit amounted to less than RM 500, the average current account credit RM 2,000 and the average loan RM 1,000.

[38] ibid., pp. 78–87, 102f.

[39] Emergency decree [Notverordnung], 5 Oct. 1931, in *Reichsgesetzblatt*, I (1931).

[40] *Wirtschaft und Statistik*, 18 (1938), p. 81f.

## IV

Whereas the savings banks became the major holders of long-term Reich debt, other banks refinanced parts of the short-term Reich debt by acquiring Reich bills as assets. In order to camouflage the Reich's rising short-term debt, the ingenious Hjalmar Schacht invented the so-called MeFo bills by creating a short-term credit instrument drawn on the Metallurgische ForschungsAnstalt [Metallurgical Research Institution]. In fact, the Reich was the majority owner of this brass plate company, which had a capital of only RM 1 m. From 1934 to March 1938, the Reich amassed a debt of RM 12b. against itself through the short-term financing of rearmament expenditures. In this process, the bills involved were automatically prolonged for additional, further 90 days until whenever their ultimate date of redemption. As a result, this short-term Reich debt became in practice a long-term debt, with its repayment delayed to either after Endsieg [final victory, as Göring supposed] or the return to austerity (as Schacht hoped and insisted upon in vain). By the use of MeFo bills, the Reich and the Reichsbank circumvented the Central Bank Law which prohibited the supply of credits by the central bank to the Reich. As MeFo bills were legally treated in the same way as ordinary trade bills, this nominally short-term Reich debt remained invisible within the Reichsbank's balance sheet.

For a bank, it was quite attractive to hold MeFo bills since the Reichsbank guaranteed their rediscount and accepted them as liquid assets.[41] Furthermore, the interest rate on MeFo bills stuck at four per cent, thus becoming increasingly more attractive than that on trade bills. For reasons of secrecy, MeFo bills were not shown separately in balance sheets with the result that it is quite difficult to estimate the banks' total holdings. Despite the general increase of bills in circulation between 1933 (RM 8,610 m.) and 1936 (RM 15,050 m.), the volume of trade bills declined from RM 7,530 m. to RM 5,340 m.[42] Therefore, the rise of short-term assets declared within the banks' balance sheets, from RM 3,646m. in 1933 to RM 5,415 m. in 1936, implies an increasing share comprising MeFo bills, Treasury bills [Reichsschatzwechsel] and work-creation bills [Arbeitsbeschaffungswechsel]. Furthermore, non-banks held more and more bills – RM 1,639 m. in 1933, rising to RM 4,026 m. in 1936 – signifying that industrial companies preferred to invest their rising amounts of liquid assets in MeFo bills instead of low interest accounts. According to material subsequently supplied by directors of the Deutsche Bank to the United States Military Government in Germany, the amount of MeFo bills in their bank's balance sheets fell considerably after 1936, from RM 405 m. (75 per cent of all trade bills) to RM 124 m. (38 per cent of all trade bills) in 1938. This indicates that the Deutsche Bank – and probably other banks – discounted MeFo

[41] BA K: Reichsfinanzministerium, no. 13684; see the executive order for the amendment of the Banking Law, 30 Jun. 1936; and the secret file notice from Ministerialrat Prause (Ministry of Finance), 26 Jun. 1936.

[42] Deutsche Bundesbank, *Währung und Wirtschaft in Deutschland 1876–1975* (Frankfurt-a-Main, 1976), pp. 322–5; and the *Annual Reports* of the 'big three' banks, 1933 to 1936.

bills with the Reichsbank, which kept more and more of them in its portfolio.[43] Although there is enough evidence to conclude that the banks were not the main holders of MeFo bills, these 'credit' instruments comprised a considerable share of the banks' supposedly liquid assets.

## V

Rigid capital market control was not employed exclusively to secure the successful financing of the Reich's long-term debt. From 1935, the Reichsbank's capital market committee permitted a greater number of issues of shares and industrial loans to enable the long-term financing of armaments and autarky industries (chemicals and ore mining). But, in comparison to periods before the great slump, the volume of share flotations was at a significantly lower level whereas profits from this business were constrained during the 1930s by the imposition of strict limits upon interest and commission charges.

In December 1934 the Ministry for Economic Affairs initiated negotiations with the major banks for the formation of a syndicate to undertake a loan of RM 145 m. to the chemical industry. Although the Ministry offered very unfavourable terms regarding interest and commission charges, the banks were in a weak negotiating position. However, the Reich provided guarantees regarding interest and amortisation payments thereby making the arising risks negligible. Furthermore, if the banks had rejected this proposal, they would not have had other opportunities for syndicate credits of this size and, in addition, might have soured their relationships with the Reichsbank. Consequently, the banks had to accept that the usual commission charge of 1.5 per cent would not be paid to them. Moreover, despite the long-term nature, ten to 12 years, of the transaction, the banks were only to receive the short-term interest rate of five per cent. Since the Reichsbank was not indicating that it would refinance the loan through providing rediscount facilities, the banks were uncertain whether their liquidity might be endangered by undertaking this syndicated long-term credit.[44]

The largest portions of the syndicate credit were destined to finance the construction of coal hydrogenation plants which would reduce the Reich's dependence upon crude oil imports during wartime. These central projects of the National Socialist autarky policy were highly capital-intensive but yielded low investment returns. As a result, a second syndicate loan of over RM 100 m. became inevitable in 1936. Its undertaking led to some of the banks involved in the financing syndicate having to exceed the legal limit upon credits provided to a single client (ten per

[43] OMGUS-Ermittlungen gegen die Deutsche Bank [edited and printed (Nördlingen, 1985)], p. 140; and BA P: Reichskanzlei [Reich Chancellery], no. 234, memorandum of the Reichsbank-direktorium [Reichsbank executive board] to the Führer and Chancellor, 7 Jan. 1939.

[44] ibid., Deutsche Bank, no. 22833, correspondence between the Deutsche Bank and the Dresdner Bank.

cent of 'own capital'). Therefore, they required exemptions from the Aufsichtsamt für das Kreditwesen [Control board for banking].[45]

Whereas the industrial sector had to rely more and more on self-financing, the key sectors of rearmament and autarky were generously supported by the capital market. In 1936/37, the key projects of Göring's Four Year Plan, such as synthetic fuel and fibres production, ore mining and the aluminium industry, were able to finance RM 506 m., out of total investments amounting to RM 959 m., by loans and long-term credits.[46]

Despite the relatively low demand for credits, the banks were somewhat reluctant when they were invited by the Ministry for Economic Affairs, in conjunction with Göring's Office for the Four Year Plan, to form credit syndicates for some key projects. As Eduard Mosler (member of the executive board) stated at the general meeting of the Deutsche Bank in 1938, the banks had to respond to, and fulfil, the demand for substantial credits to the synthetic fuel industry even though the capital assets involved were unprofitable.[47] In 1939, when more than 50 per cent of their assets were still liquid, the banks nonetheless urged the Reichsbank to guarantee rediscount facilities. Yet this behaviour should not be misinterpreted as some form of hidden resistance to the National Socialist armaments policy. This is because at least the directors of the Deutsche Bank still believed that there would be a return to a 'peace economy'. Consequently, they were anxious not to conclude too many credit agreements for unprofitable businesses whose prospects within a limited number of years might be even less favourable. In fact, the banks looked for a necessary pretence to evade undertaking a third syndicate loan for over RM 50 m.[48]

Although, in 1935, the Ministry for Aviation [Reichsluftfahrtministerium] offered quite favourable conditions, the banks declined its request for a syndicate loan to the aviation industry. In order to crowd out competing borrowers, the Ministry accepted an interest rate for the loan which was to be between 0.75 to one per cent above that for the synthetic-fuel-credit syndicate. Though the bank representatives argued explicitly against the vague promise of rediscounting, they implicitly feared that not even a Reich guarantee might constitute a sufficient security of repayment. At this time, the bankers still considered that the reconstruction of the German Luftwaffe to be only a short and limited process, with the result that, after a few years, capacity within the aviation industry might lie idle and

[45] ibid., Deutsche Bank, no. 22802, minutes of Eduard Mosler over negotiations in the Ministry for Economic Affairs, 24 Sep. 1936; and ibid., Reichswirtschaftsministerium, no. 18569, minutes of official, Hans Schniewind (Ministry for Economic Affairs), 7 Jul. 1936.

[46] Nuremberg trials, document EC-281, p. 131, financial survey from the Amt für deutsche Roh- und Werkstoffe [Department for domestic raw materials at Göring's Four Year Plan organisation] for the period 23 Oct. 1936 to 20 May 1937.

[47] Mosler's speech at the general meeting on 6 Apr. 1938, published in *Berliner Börsen-Zeitung* (6 Apr. 1938).

[48] BA P: Deutsche Bank, no. 22783, minutes of Deutsche Bank executive, Hellmuth Pollems, over negotiations with the Ministry for Economic Affairs, 9 Mar. 1939.

become unprofitable. But there were two important circumstances which finally forced the banks to surrender. First, the Ministry for Aviation and the Führer's deputy for Economic Affairs, Wilhelm Keppler, exerted strong moral suasion upon them. Second, the Dresdner Bank broke ranks through displaying a willingness to accept the proposal. Unlike the Deutsche Bank and the Commerzbank, the Dresdner Bank had two Nazi directors on its executive board, who did their best to keep on good terms with the Air Force Minister and Four Year Plan plenipotentiary, Hermann Göring.[49]

## VI

For historians it is a delicate matter to argue what might have happened if the Nazis had not come to power. But such counter-factual argument might help to answer the question: whether the banking sector followed either a long-term economic trend or was shaken by a short-term political shock? There is no doubt that the major joint stock banks would not have been able to recover faster during 1933 and 1934, when they were still overcoming the effects of the 1931 banking crisis. However, from 1935, National Socialist credit policy prevented the provision of credit from resuming its traditional routine by directing the banks into a rather riskless, uninnovative and boring business with limited, but guaranteed profit margins. Allocating credits and loans became less and less a matter of skilful banking through being more and more determined by government interests. The German banks lost a considerable amount of their bargaining power *vis-à-vis* their debtors through the latter becoming increasingly self-sufficient with regard to credits. Thus National Socialist credit policy accelerated the rate of the decline of the banks' power, which had got under way during Imperial Germany and which was to culminate over the Second World War. Despite some National Socialist reservations regarding the mystified power of banks, banks were not bypassed by intention but by opportunity.

Although the National Socialist politicians interested in economics always disagreed about the general lines of market, price and interest rate policies, they agreed unanimously that the interests of the Volksgemeinschaft [community of the German people] had priority over private discretion of property. So the question of public or private ownership of banks had only secondary importance for a National Socialist banking policy which, ironically, was directed by a Reichsbank President who considered himself to be a genuine nationalistic conservative. Banking was never nationalised since the compliance and subordination of banks could be achieved within the framework of a guided market economy by indirect means of direction.

[49] BA K: OMGUS/FINAD 2/197/12, minutes of Dresdner Bank executive, Emil Meyer, about negotiations with the Ministry for Aviation, 20 May 1935.